

CRITTENTON COMMUNITY SCHOOL
Columbus, Ohio

Report on Audit of Financial Statements
And Supplementary Financial Information

For the year ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Governors
Crittenton Community School
1515 Indianola Avenue
Columbus, Ohio 43201

We have reviewed the *Independent Auditors' Report* of the Crittenton Community School, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Crittenton Community School is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 2, 2006

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CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Management's Discussion and Analysis	2
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	16

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INDEPENDENT AUDITORS' REPORT

Crittenton Community School
Franklin County
1418 East Broad Street
Columbus, Ohio 43205

To the Board of Governors:

We have audited the accompanying basic financial statements of the Crittenton Community School (the School) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2005, and the changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2006 on our consideration of Crittenton Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

SCHWEIDER DOWNS & CO., INC.
Columbus, Ohio
March 13, 2006

CRITTENTON COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED 2005

The discussion and analysis of the Crittenton Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

- Total assets were \$162,662. Capital assets, net, amounted to \$11,046 while cash and other assets amounted to \$151,616.
- Liabilities totaled \$128,364. Accrued wages and benefits amounted to \$37,750, accounts payable and other liabilities amounted to \$16,386, and the amount due to Ohio Department of Education amounted to \$74,228.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

CRITTENTON COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED 2005

Table 1 provides a summary of the School's net assets for fiscal year 2005 and 2004:

(Table 1)
Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 151,616	\$ 85,612
Capital Assets, Net	<u>11,046</u>	<u>7,653</u>
Total Assets	<u>\$ 162,662</u>	<u>\$ 93,265</u>
Liabilities		
Current Liabilities	<u>128,364</u>	<u>114,669</u>
Net Equity		
Invested in capital assets	11,046	7,653
Unrestricted (Deficit)	<u>23,252</u>	<u>(29,057)</u>
	<u>34,298</u>	<u>(21,404)</u>
Total Liability & Net Assets	<u>\$ 162,662</u>	<u>\$ 93,265</u>

Total assets totaled \$162,662. Equity in pooled cash and cash equivalents amounted to \$80,479, Intergovernmental Receivables amounted to \$70,585, and other assets amounted to \$552. Capital Assets, before depreciation totaled \$14,602.

CRITTENTON COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED 2005

Table 2 provides a summary of the changes in net assets for the year ended June 30, 2005 and 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Foundation Payments	\$ 606,227	\$ 249,660
Disadvantaged Pupil Impact Aid	15,815	6,426
Other	9,576	6,519
Non-Operating Revenues:		
Operating Grants and Contributions	<u>106,363</u>	<u>136,012</u>
Total Revenues	<u>737,981</u>	<u>398,617</u>
Operating Expenses		
Salaries	498,828	247,383
Fringe Benefits	94,720	53,501
Purchased Services	60,126	89,818
Materials and Supplies	5,199	6,576
Depreciation	1,729	1,218
Other Expenses	<u>21,677</u>	<u>13,478</u>
Total Expenses	<u>682,278</u>	<u>411,974</u>
Change in Net Assets	55,702	(13,357)
Net Assets Beginning	<u>(21,404)</u>	<u>(8,047)</u>
Net Assets End of Year	<u>\$ 34,298</u>	<u>(21,404)</u>

The School's business-type activities consist of enterprise activity. Community Schools receive no support from taxes.

(Table 3)
Capital Assets

As of June 30, 2005 and 2004, the School had the following capital assets:

	<u>2005</u>	<u>2004</u>
Furniture and Equipment, net:	<u>\$ 11,046</u>	<u>\$ 7,653</u>

CRITTENTON COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Current Financial Issues

The Crittenton Community School (the School) began operations on July 1, 2002. The idea for this innovative school was formed through the board members of Directions For Youth & Families, Inc., an associated not-for-profit organization. Crittenton Community School was formed as a 501(c)(3) corporation with a governing board of nine members which are elected. During the start up process, the State of Ohio awarded a \$50,000 grant; and, later, the federal government awarded three grants, \$150,000 each in the first three years of operation. The School enrolls "high risk" middle school students, grades 6, 7 and 8, at-risk due to behavioral/emotional issues. The School uses two primary service models that are personalized through creation of the students Individualized Learning Plan. The Outreach component of The School is primarily community/home-based. Certified teachers manage a caseload of no more than 5-8 students who have demonstrated, in other schools, an inability to cope with the demands of a classroom setting. The Bridge component utilizes split scheduling and an abbreviated school day as teachers work in classrooms that emphasize proper school behavior by teaching students how to avoid the inappropriate disruptions that often characterize their participation in larger school environments. Both models have a low student-to-teacher ratio which is the key to a comprehensive and supportive academic intervention program.

Cash flow needs have been an issue during the initial years of operation. The School has had to borrow from its management company to meet cash flow needs and has a balance due of \$15,333 at June 30, 2005. Due to the necessity to maintain a low student-to-teacher ratio, the school has struggled to sustain a break-even position. The Outreach educational format continues to be in demand as evidenced by the wait list maintained by the school. It is anticipated that the Outreach component, along with a service contract with Columbus City Schools, will build a student base sufficient to provide financial stability in the near future.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Barbara Martin, Treasurer at Crittenton Community School, 1515 Indianola Avenue, Columbus, Ohio 43201, 614-294-2661 or e-mail at bmartin@dfyf.org.

CRITTENTON COMMUNITY SCHOOL

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

ASSETS

Current Assets	
Cash and Cash equivalents	\$ 80,479
Intergovernmental Receivable	70,585
Prepaid Items	552
Total Current Assets	<u>151,616</u>
Furniture and Equipment, Net of Accumulated Depreciation	<u>11,046</u>
Total Assets	<u>\$ 162,662</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 1,053
Loan Payable - Management Company	15,333
Accrued Wages and Related Liabilities	11,921
Benefits Payable	25,829
Intergovernmental Payable	74,228
Total Liabilities	<u>128,364</u>
Net Assets	
Invested in Capital Assets	11,046
Unrestricted	23,252
Total Net Assets	34,298
Total Liabilities and Net Assets	<u>\$ 162,662</u>

See accompanying notes to the basic financial statements

CRITTENTON COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Operating Revenues	
Foundation Payments	\$ 606,227
Disadvantaged Pupil Impact Aid	15,815
Donations	3,650
Other Operating Revenue	<u>5,926</u>
Total Operating Revenue	<u>631,618</u>
Operating Expenses	
Salaries	498,828
Fringe Benefits	94,720
Purchased Services	60,126
Materials and Supplies	5,199
Depreciation	1,729
Other Operating Expenses	<u>21,677</u>
Total Operating Expenses	<u>682,279</u>
Operating Loss	(50,661)
Non-Operating Revenues	
Federal Grants	<u>106,363</u>
Total Non-Operating Revenues	<u>106,363</u>
Change in Net Assets	55,702
Net Assets Beginning of Year	<u>(21,404)</u>
Net Assets End of Year	<u><u>\$ 34,298</u></u>

See accompanying notes to the basic financial statements.

CRITTENTON COMMUNITY SCHOOL

STATEMENT OF CASH FLOWS
FOR THE YEAR END JUNE 30, 2005

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 651,264
Other Operating Receipts	12,535
Cash Payment to Employees for Services	(566,031)
Cash Payments to Suppliers for Goods and Services	(140,518)
Cash Payments for Other Operating Expenses	<u>(21,677)</u>
Net Cash Used by Operating Activities	<u>(64,427)</u>
Cash Flows Used in Capital & Related Investing Activities	
Fixed Asset Purchases	<u>(5,123)</u>
Cash Flows from Noncapital Financing Activities	
Federal Grants	107,747
Loan Repayment to Management Company	<u>(7,667)</u>
Net Cash Provided by Noncapital Financing Activities	<u>100,080</u>
Net Increase in Cash and Cash Equivalents	30,530
Cash and Cash Equivalents at Beginning of Year	<u>49,949</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 80,479</u></u>
Reconciliation of Change in Net Assets to Net Cash Used by Operating Activities	
Operating Loss	<u>\$ (50,661)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities	
Depreciation Expense	1,729
Changes in Assets and Liabilities	
Decrease in Intergovernmental Receivable	29,282
Decrease in Prepaids	2,899
Decrease in Accounts Payable	(75,193)
Increase in Accrued Wages and Related Liabilities	5,166
Increase in Benefits Payable	<u>22,351</u>
Total Adjustments	<u>(13,766)</u>
Net Cash Used by Operating Activities	<u><u>\$ (64,427)</u></u>

See accompanying notes to the basic financial statements

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Crittenton Community School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status. Specifically, the School's purpose is to be a model charter school serving middle school students in the sixth (6th) through eighth (8th) grades. The School, which is part of the state's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in January, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the developers, which provided for the commencement of School operations on August 26, 2002. The School operates under a nine - member Board of Governors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Director of the School, under the direction of the CEO, controls the School's one instructional facility staffed by two full-time certificated personnel, 27 part-time certificated personnel and the five noncertificated personnel, who provided services to the approximately one hundred and fifty one students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Crittenton Community School, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

Basis of Presentation - The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and change in net assets, and a statement of cash flow. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between Crittenton Community School, Inc. and its sponsor, Ohio Department of Education, does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

Cash and Cash Equivalents - All monies received by the School are maintained in a single demand deposit account. Fund integrity is maintained through School records and the USAS accounting system. Total cash for all funds is presented as "cash and cash equivalents" on the accompanying statement of net assets.

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Capital Assets - Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful life of the asset, using a half year in the year of acquisition. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets. Useful life ranges are from 5 to 10 years depending on the asset. The School does not possess infrastructure.

Intergovernmental Revenue - The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above named programs for the 2005 school year totaled \$622,042.

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Net Assets - Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are operating grants and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

NOTE 3 – RECEIVABLES

The School has a receivable of \$70,585 from the Federal Government. The balance is considered to be 100% collectable.

NOTE 4 - DEPOSITS

At June 30, 2005, the carrying amount of the School's deposits was \$80,479. Of the bank balance, 100% was covered by federal depository insurance.

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of the School's property and equipment at June 30, 2005 follows:

Furniture and Equipment	\$14,602
Less: Accumulated Depreciation	<u>(3,556)</u>
Net Capital Assets	<u>\$ 11,046</u>

NOTE 6 - RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains insurance coverage for rental/theft, general liability, and directors and officers' liability in the amount of \$1,000,000, which the Board of Governors believe is adequate.

Workers' Compensation - The School paid the State Workers' Compensation System a premium for employee injury coverage in fiscal year 2005. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

Employee, Medical, Dental, and Vision Benefits - The School provided employee health insurance and dental insurance benefits to full-time certificated and noncertificated personnel during fiscal year 2005. Personnel contribute to a portion of the cost of the benefit.

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The School's required contributions to SERS for the fiscal years ended June 30, 2005 was \$13,307; 53.96% has been contributed for fiscal year 2005. There were unpaid contributions of \$6,127 at the end of fiscal year 2005 which is included in the statement of net assets as benefits payable.

State Teachers Retirement System - The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005 was \$56,017; 72.97% has been contributed for fiscal year 2005. \$15,141 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. There was no prepaid portion of employer contributions for the fiscal year 2005.

NOTE 8 – POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS.

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$3,773 during fiscal 2005. STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who qualify. For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$7,272 during the 2005 fiscal year. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits.

NOTE 9 - OTHER EMPLOYEE BENEFITS

Compensated Absences - The criteria for determining vacation and sick leave components are derived from School policy and State laws. All employees are at-will employees and do not have contracts as employees in traditional school districts. Salaried employees accrue sick time of 15 days per calendar year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Upon separation of service, sick and vacation time is not paid.

NOTE 10 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 11 - CONTINGENCIES

Grants - The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

Litigation - A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the School is not presently determinable.

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 12 - LEASES

The School leased classroom and office space in a building under a cancelable operating lease. The terms of this lease continued from year to year until terminated by either party with 180 days prior written notice. Total lease payments were \$12,204 for the year ended June 30, 2005. The lease was terminated effective June 30, 2005.

NOTE 13 - MANAGEMENT COMPANY

The School contracts with Directions for Youth & Families, Inc. for executive management and financial management services. The contract specifies a payment of \$2,182 per month for the performance of these services. Executive management services include representing the School's interests with the Board of Governors, the community, and various funding sources. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation. Management services also include planning, property management, and public relations. Total charges for fiscal year 2005 amounted to \$26,183. The Management Company loaned the School \$23,000 in the fiscal year 2003. The remaining balance is reflected as a loan payable at June 30, 2005. The loan agreement provides that the School will repay, at no interest, the amount borrowed in yearly payments of \$7,667 through June 30, 2007.

NOTE 14 - PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Management Fees	\$26,183
Audit Fees	6,556
Consulting	9,239
Data Center	5,500
Building Lease	12,204
Other	444
	<u>\$60,126</u>

CRITTENTON COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 15 - FULLTIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the fiscal year ended June 30, 2005 reconciliation, it was determined that school received an overpayment in the amount of \$71,303, which has been recorded as a year-end liability. The amount of the liability will be deducted from subsequent state foundation payments.

NOTE 16 – SUBSEQUENT EVENTS

School Sponsorship – Effective July 1, 2005 the St. Aloysius Orphanage became the Sponsor of the School, replacing the State Board of Education.

Operating Lease – Effective July 1, 2005 the school leases office space in a building under a noncancelable operating lease. The terms of this lease continue for the period of one year until June 30, 2006. The lease is in the amount of \$30,000 annually (\$2,500) payable in advance, on the first day of each month during the lease term.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Crittenton Community School
Franklin County
1418 East Broad Street
Columbus, Ohio 43205

To the Board of Governors:

We have audited the accompanying basic financial statements of Crittenton Community School (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated March 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crittenton Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the School in a separate letter dated March 13, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crittenton Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the management and the Board of Governors, and is not intended to be and should not be used by anyone other than these specified parties.

SCHWEIDER DOWNES & CO., INC.

Columbus, Ohio
March 13, 2006



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

CRITTENTON COMMUNITY SCHOOL, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 16, 2006**